UNITED NATIONS

DEVELOPMENT

PROGRAMME

UNDP

Distributed on request

DP/PROJECTS/7460

ENGLISH

**APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF NEPAL**

IPF:(1992-96) $77 772 000

**(NEP/91/037) - Privatization of Manufacturing Public Enterprises**

| | |
|---|---|
| Date of approval: | 13 February 1991 |
| Expected duration: | Six months |
| Proposed executing agency: | The World Bank in cooperation with ILO |
| Government implementing agency: | Ministry of Finance |
| Proposed UNDP contribution: | $ 581 500 Source of funds: IPF |
| Total UNDP budget: | $ 581 500 |

## Project background

For the last three decades, the Government of Nepal, under the framework of a mixed economy, has adopted state entrepreneurship as a strategy for rapid industrial development and betterment of the people. With the support of bilateral and multilateral donors, the Government has so far established sixty-two public enterprises in major sectors of the economy. Twenty eight of these enterprises are in the manufacturing sector and nine in the trading sector.

For various technical and managerial reasons, however, most of the public enterprises are in the red and have become a financial burden to the Government of Nepal absorbing about 12 to 20 per cent of total public revenue. Manufacturing and trading public enterprises alone account for about half of the Government's resource outflow. Most of the public enterprises are ill-managed, overstaffed and running at low capacities in spite of receiving protection and financial support from the Government of Nepal.

In the light of these developments, the Government has recently declared in the Approach Paper to the Eighth Plan (1992 - 1997) prepared by the National Planning Commission in November 1991 and the Draft Industrial Policy (1992), its intention to adopt a liberal and private sector oriented industrial development policy and to reallocate public sector funds in crucial and high priority areas focusing on rural development. It has promulgated a Policy Paper on Privatization which sets forth the operational guidelines for the implementation of a privatization programme of the public enterprises.

As called for in the policy paper, the Government of Nepal has constituted a three-tier institutional framework on the privatization programme comprising of a high level Privatization Commission, a Technical Committee, and a Secretariat to the Technical Committee (the Privatization Cell). For a start, three manufacturing public enterprises in the leather and shoe, brick and tile, and paper industries have been selected for privatization by 15 July 1922.

Due to the magnitude of the tasks involved, the Government has requested assistance from UNDP and the World Bank/IDA in the preparation of a long-term privatization and restructuring programme based on the policy paper as well as in the implementation of the privatization of the selected manufacturing public enterprises.

/...

## Description of project

The project has a two-pronged objective: (1) to carry out successfully the privatization of the three selected manufacturing public enterprises; and (2) to prepare a comprehensive long-term privatization programme.

To address the sensitive issue of the treatment of surplus labour in the three manufacturing public enterprises, the project provides for the preparation of a comprehensive redundancy package involving the development of incentive schemes for early retirement or voluntary or involuntary departures. ILO has agreed to serve as a cooperating agency with the World Bank/IDA in this activity.

An intensive study of the sugar industry will be undertaken to guide the privatization of a public sector sugar factory. The study will analyse the structure of the sugar industry, examine the impact of the Government's policy on the industry, and determine the impact of abolishing price control. Since there are a number of similar industries in the public sector, this study should also provide a valuable input in determining privatization options for such "sensitive" industries. The project also intends to develop a communications and awareness programme for privatization in order to make the benefits of privatization clear to all concerned parties, and to provide assurances to them of the Government's commitment to the process. The project will come up with a long-term privatization programme including an identification of the necessary capital and technical assistance for its implementation.

Project activities are intended to be completed within a strict time frame in line with the Government's commitments towards privatization.

## Inputs

UNDP will provide two work-months for a redundancy specialist (from ILO), three work-months for an economist, three work-months for a lawyer/privatization specialist and two work-months for unspecified consultants; a sub-contract with international consulting firms to carry out the "Valuation and Privatization of the Public Enterprises" and the "Sugar Industry Study", a subcontract with national consulting firms to carry out the Retirement/Redundancy Study in coordination with ILO Consultants as well as designing and implementing a communications programme; equipment; and miscellaneous costs.

## Financial data

| | $ |
|---|---|
| Personnel | 150 000 |
| Subcontract | 363 500 |
| Equipment | 33 000 |
| Miscellaneous | 35 000 |
| Total | 581 500 |

- - - - -